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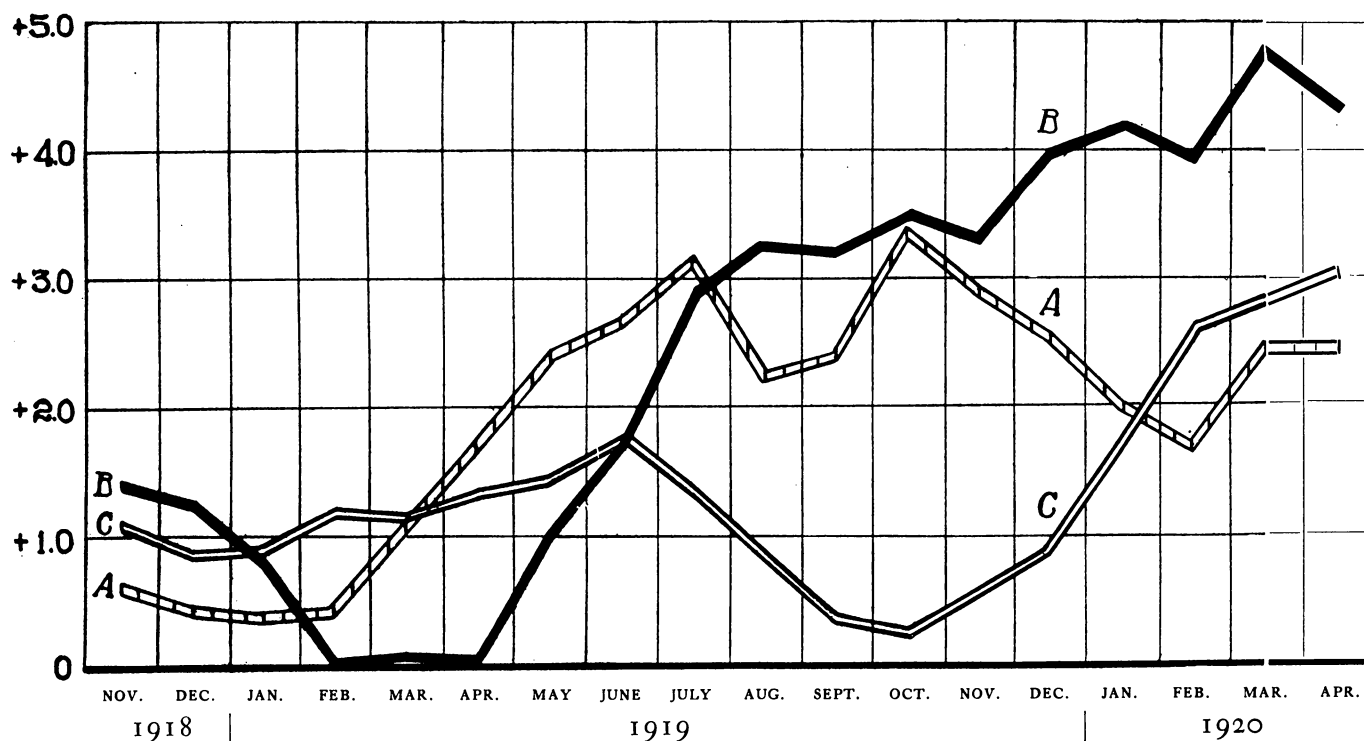
ADVANCE LETTER ON GENERAL BUSINESS CONDITIONS

May 15, 1920

BUSINESS, represented by curve B, receded in April. Rates on commercial paper, represented by curve C, increased in April and the increase has continued in the first half of May. Speculation, represented by curve A, hesitated in April and declined during the first two weeks in May.

paper has not been surpassed since the war crisis of August-October, 1914 and the panic of 1907. High interest rates at the present time should be considered desirable rather than otherwise for it is through their influence that the necessary economic adjustment will work itself out. Money may be expected to continue

INDEX CHART



GROUP A — SPECULATION: New York Bank Clearings, Shares Traded on the New York Stock Exchange, Price of Industrial Stocks.
GROUP B — BUSINESS: Bank Clearings outside New York City, Bradstreet's Price Indices.
GROUP C — BANKING: Rate on 4-6 Months Commercial Paper, Rate on 60-90 Day Commercial Paper.

EXPLANATION: Each one of the three curves is based upon a homogeneous group of statistical series, that is, the members of each group have synchronous cyclical fluctuations after having been corrected for seasonal variation and normal growth, and expressed in comparable units. In other words, the corrected series of each group fluctuate together.

Our interpretation of the fluctuations of the three curves of the current index chart is based upon the relationship which was discovered among similar curves for the period 1903-14. All three curves had wave movements, but the upward swings and the crests of the waves were not reached simultaneously. The major movements of speculation preceded those of business by 4 to 10 months, and the movements of business preceded those of banking by 2 to 8 months. The sequence of movements holding for upward swings and crests also held for downward swings and troughs.

The relationship between the curves which held for the pre-war period appears to have reestablished itself in 1919 so that the movements of the curves constitute a basis for forecasting. Our forecasts, however, are not

based solely upon the index of general business conditions, but they allow for the differences in underlying conditions as revealed by economic analysis. At present, the persistent rise of rates on commercial paper, curve C, and the decline of speculation from the high point of October, curve A, forecast a decline of business activity and commodity prices, curve B, which will take place some time between April and December 1920.

The time and extent of the recession, if it occurs, in business activity and commodity prices depend upon the operation of two powerful opposing forces. On the one hand, the shortage of commodities and buildings, abnormal foreign demand for goods and credit, the railroad tie-up, and active retail trade in the United States make for immediate business activity and higher prices. On the other hand, inflated currency and credit, depleted reserves and increasing interest rates, all indicative of capital strain, make for a slackening of business activity and lower prices. At present the money market appears to be the crux of the situation, but we recognize the possibility of the entrance of other factors which may alter the course of developments.

Although the volume of business, as indicated by outside clearings, receded in April the average prices of commodities showed no recession. Since the middle of April, however, a number of important recessions have occurred and the tone of the commercial press indicates a belief that the sellers' market of the last year is terminating.

Stringency in all money markets has increased; the yield on ten gilt-edged railroad bonds in April was the greatest since the record has been kept (1890); the government is paying the highest rate for money since Civil War times; and the rate on short-time commercial

very tight and security markets depressed until necessary liquidation in commodity markets has been accomplished.

BUSINESS

In April bank clearings outside New York City were 17,780 million dollars or 6 per cent below the March figures. Usually outside clearings in April are only one or 2 per cent under the total for March.

Bradstreet's index number of commodity prices was \$20.73 on May 1 compared with \$20.71 on April 1, \$20.80 on March 1, and the high record of \$20.87 on February 1.

The decline in curve B, representing business, in April is the result of a considerable falling off in the corrected figures for clearings and the failure of basic commodity prices to increase significantly.

Although *Bradstreet's* index for May 1 shows a slight decrease over that for the preceding month, the commodity price average of *Dun's Review* rose 2 per cent last month, from 257.9 on April 1 to 263.3. The discrepancy may be ascribed to the fact that *Dun's* list of commodities contains many items in an advanced stage of manufacture whereas *Bradstreet's* list is made up, primarily, of basic materials. A check to an upward movement of prices usually appears first in raw materials rather than in finished goods.

The decrease in total outside clearings in April was largely the result of a striking falling off in Middle Western and Far Western states. For these sections the decline from March was 9 per cent compared with about 2 per cent for the remainder of the country. In New England there was a slight increase. The figures for March and April are given in the following table:

OUTSIDE CLEARINGS

(Unit: \$1,000,000)

Section	March	April	Ratio of April to March
Middle *	3,871	3,814	98.5%
New England	1,852	1,886	101.8
Middle West	5,468	4,862	88.9
Pacific	1,810	1,709	94.4
Other West	2,722	2,498	91.8
Southern	3,185	3,016	94.7
Total *	18,908	17,785	94.1

* Excluding New York City.

The congestion of freight in the principal terminals is reported to be "the worst since the hard winter of 1917." The tie-up is ascribed to a combination of circumstances — the recent strike, difficulties of securing labor at junction points, and shortage of equipment. The *Iron Age* estimates that a million tons of finished steel are loaded on cars not being moved and stored in works and mill yards. Transportation difficulties were responsible for the decrease of ingot production in April to 120,760 tons per day, which is a reduction of about one-sixth from the March output of 145,000 tons daily. There has been a decrease, however, in the number of cars tied up or delayed in transit between the middle of April and the middle of May and further improvement in the situation is expected. Such an improvement, if it occurs, should result in lower commodity prices and a somewhat easier credit situation.

Substantial mark-down sales of dry goods are advertised in a number of cities. *Dun's Review*, *Bradstreet's*, the *New York Journal of Commerce*, and other publications all speak of the unstable character of the present market and state that considerable price recessions in a number of commodities are imminent.

There is at least one group of commodities, however,

— foodstuffs — in which price recessions do not now appear probable. The poor condition of winter wheat, the backward season, the reduced average of a number of crops, shortage of agricultural machinery, and labor difficulties may result in deficient crops and high prices. Although the present agricultural outlook is bad, it is entirely too early in the season to predict the outcome with any confidence.

SPECULATION

In the first half of May a sagging tendency has been evident in the stock market. On May 12 the average price of twenty industrials was \$91.29 compared with \$105.65 on April 8 and the price of twenty rails was \$72.36 compared with \$76.53 on April 7.

Bonds have also been weak. The yield of ten seasoned gilt-edged railroad bonds averaged 5.91 per cent in April, the highest point ever reached. Dow, Jones & Co.'s bond index for April, based on average price and yield of forty corporation bonds, including high and second grade railroad, public utility and industrial bonds, declined to a record low, 59.45. This compares with 62.03 in March and 81.91 in January 1917, the high figure. The decline of the index number in April was unusually severe; all classes of bonds moved down.

Prolonged improvement in security prices is not to be expected until liquidation in commodity markets results in a much easier banking situation. The demands of business for funds are still insistent and the rates for all classes of time money continue to stiffen.

BANKING

Since the first of April there has been no noteworthy change in the condition of the combined federal reserve banks. The important items of the weekly statement have remained nearly constant, the ratio of reserves to demand liabilities fluctuating between 42.4 and 43.3 per cent and excess reserves between 206 and 245 million dollars.

In the first half of May choice double name 60-90 day commercial paper ruled in New York at 7 per cent with a stiffening tendency noticeable. The renewal rate for call loans ranged between 7 and 9 per cent and time money on mixed collateral brought 8 to 9 per cent. Secretary of the Treasury Houston has announced a new series of Treasury certificates of one hundred million or more to bear 5½ per cent and run for six months. The two previous issues were made at 5 and 5¼ per cent, respectively.

The general banking situation of the country is strained but the acute points of strain have shifted from the East to the Middle West. First the Boston, then the New York Federal Reserve Banks were borrowers from other banks, now these two, with Cleveland, are lenders. At present, St. Louis, Chicago, and Richmond are the large borrowers in the system, with Kansas City, Minneapolis, Philadelphia and Dallas also on the debit side.